PanCana

annual report
1976

PanCana Industries Ltd.

DIRECTORS

KENNETH G. HEFFEL	Businessman.
KENDALL JENNINGS	Chairman of the Board.
K. MICHAEL JENNINGS	Attorney at Law, Tacoma, Washington, U.S.A.
DAVID B. NICHOLSON	President and Chief Executive Officer.
THOMAS H. STEVENSON	Director of Permanent Concrete Ltd., Standard Paving and Materials Ltd., and Hub Equipment Ltd.

OFFICERS

KENDALL JENNINGS	Chairman of the Board.
DAVID B. NICHOLSON	President and Chief Executive Officer.
NEIL L. JENNINGS	Secretary.
DEL. F. ZINGLE	Treasurer and Group Controller.

ANNUAL MEETING

The Annual Meeting of the Company will be held at the Holiday Inn, Eighth Avenue and Sixth Street S.W., Calgary, Alberta, on Wednesday, January 5th, 1977, at 10:00 A.M.

1976 HIGHLIGHTS

		1976	1975
Revenue	- from continuing operations	$ 5,796,915	$ 3,991,303
Earnings (Loss)	- from continuing operations	(476,832)	46,397
	per share	(12¢)	1¢
	- extraordinary gain	1,068,609	120,781
	per share	26¢	3¢
Cash Flow - from operations		239,184	2,073,011
Fixed Asset Additions		3,025,651	4,606,936
Increase in Long-Term Debt		2,062,929	863,588
Working Capital		1,384,822	(283,879)
Shares Outstanding		4,116,413	4,116,413
Number of Shareholders		1,245	1,275

PRESIDENT'S REPORT TO SHAREHOLDERS

RESULTS FOR THE YEAR

The year ended September 30, 1976 was one of transition for PanCana Industries Ltd. In accordance with our policy of reducing our involvement in the service industries and increasing our direct participation in natural resource development, we completed the sales of the Drilling and Geophysical Divisions of the Company in December 1975 and January 1976, respectively. The full results of these disposals are reflected elsewhere in this report. The cash proceeds have been reinvested in oil and gas production properties with the largest single transaction taking place in August and September of 1976. Because of the lead time from investment to cash flow return in oil and gas activities this investment made little contribution to the revenues of the Company. Substantial cash flow will be realized in the future from the producing properties acquired.

The other major item affecting the results for the year was an abnormal write-off of preproduction expenses on our mining property in Northern Nevada. While this mine went into commercial production at the end of October 1976, we have considered it prudent to write off $333,000 expenses incurred in exploration and process development in the period ending March 31, 1976 for reasons which are more fully described below.

Including the above write-off the pre-tax loss for the year was $490,000. As a major part of the loss was incurred in our United States subsidiary and the bulk of our income was realized in the Canadian companies we only have a net tax recovery of $13,000, the total loss from continuing operations thus being $477,000. The tax losses will be available to reduce future tax liabilities in the United States subsidiary. The extraordinary gains realized on the sale of divisions, net of taxation, total $1,069,000 for final net earnings of $592,000.

OIL AND GAS OPERATIONS

During the year we purchased properties for a total consideration of approximately $4,000,000. These purchases were financed partially from the proceeds of sale of the Drilling and Geophysical Divisions and partially by production bank loans. We also participated in the drilling of a total of 23 wells resulting in 8 gas wells, 6 oil wells and 9 dry holes. PanCana's net share of the successful projects was approximately 3 gas wells and 3 oil wells.

Our major purchase during the year was for producing gas properties in the Irvine Area of Southeast Alberta. We will be carrying out further development work on this property during the winter of 1976/77. We have adequate plant and compression facilities to handle all gas production from the property when it is fully developed. We estimate that cash flow from this property can be more than doubled from the current level of $350,000 per year.

In the Joffre Area of Alberta we drilled two exploratory wells during the year, one of which is producing oil from the Viking zone at an initial rate of 50 barrels per day and the other has been completed and tested as a Viking gas well. We have also acquired further acreage in the area at Crown sales and we will be carrying out further exploration and development work.

We participated with Ocelot Industries Ltd. in three exploratory wells in the Brant Area of Southern Alberta resulting in the completion of one gas well in the Belly River Sands. By our participation we have earned varying interests in a total of 36 sections of land in the area. Our share in these wells was paid from

part of the notes receivable on the sale of the Drilling Division and our participation, therefore, had no cash cost to the Company.

PanCana's share of proven reserves, net of royalties, at September 30, 1976, is estimated at 719,000 barrels of oil and 30 billion cubic feet of natural gas.

In the United States we are participating in a joint twelve million dollar exploration program in East Texas. PanCana's share of this program will be 13⅓ per cent to pay out and 10 per cent thereafter. Included in the initial program was the purchase of an existing gas well containing substantial reserves. A number of potential prospects have been delineated and the first exploration well was spudded in early October.

Our main emphasis in Canada during the next year will be on development work on our existing properties to increase our cash flow from these properties. The bulk of our exploration activities will take place in the United States through the East Texas joint participation program and also in drilling programs in New Mexico.

ELECTRONICS

The Electronics Division of the Company had a very successful year and made approximately $60,000 profit in the twelve months ended September 30, 1976. The outlook in this Division is very encouraging and we anticipate that the year ended September 30, 1977 will again produce excellent results.

CONSTRUCTION

During this last year of low construction activity many of our competitors have been entering into contracts at prices which, in our opinion, are too low to realize any profits. It has been our policy not to bid work at prices which will realize inadequate margins as this ultimately must jeopardize the operations of the Company. The low activity level in the second half of 1976 meant that the Construction Division only achieved a break-even position for the year.

We anticipate that our equipment will be working during the winter of 1976/77 and that we shall make an adequate return on our investment during the period. The outlook beyond the spring of 1977 is again uncertain and we shall be studying this market closely with a view to obtaining an adequate return on our capital invested.

MINING ACTIVITIES

During 1975 we joined in an exploratory program on a property in Northern Nevada with a view to establishing the potential for the recovery of gold. Under the terms of the partnership agreement the existing operator continued as the operator of the joint program for the first year. While we had some encouragement in both exploration and process development during that period we were dissatisfied with the operations carried on by our partner. We were unable to reach an agreement with him on the conduct of future joint operations. We therefore terminated our arrangement and took over sole responsibility for development of the property in the early part of 1976. Unfortunately, when we took over the program we discovered that, as we feared, much of the money expended by our partner had produced little or no on-going value. Accordingly, we decided to write off all expenses incurred up to the date of termination of the partnership and a total of $333,000 of exploration and development expenses has been written off in the current year.

We commenced operations on our own account in April 1976 and we have already proven enough ore to support production through the end of 1978. Up to the date of this report we have mined and are presently processing a total of approximately 60,000 tons of ore. Peak production has not yet been obtained but we are satisfied that the first production results have shown that the mining of ore of this nature is economical at current prices of gold and we are planning to expand our operation to process approximately 120,000 tons of ore per year. Future development and

exploration will be financed from production proceeds and should not require further cash injection from the parent Company. We anticipate positive cash flows by the middle of 1977.

EQUIPMENT DIVISION

Our Equipment Division, trading under the name of W. E. Bolt Equipment Ltd., is the franchised dealer for Link-Belt® cranes and excavators for the Province of Alberta and, in addition, during the year our franchise area was extended to include the Northwest Territories.

We have, in this Division, been following a deliberate policy of developing a nucleus of key people in each department so that we can provide the service and parts backup which is required to support the planned market penetration for our product. Starting from an almost dead market we have already made considerable headway in increasing our market share for both crawler and truck cranes. With the new line of hydraulic excavators now in production we expect to make our presence felt in this field also.

During the year we relocated our Edmonton Branch into larger and more suitable premises and this completes the physical expansion which we will require. We are also now fully staffed to handle the expected increase in volume. Total sales for the year were close to two million dollars and our target is a 50 per cent increase for next year.

We are negotiating at present for the franchise in the same territories for a compatible line of equipment and our staff and facilities planning has been designed to accommodate this expansion.

We anticipate that with the increased volume this Division will have a positive cash flow contribution in 1976/77. While the pipeline segment of our market is at present very quiet, we intend to be in a position to capitalize in this area also when further major pipeline projects are approved.

® Registered Trademark.

OUTLOOK

Next year should show a return to profitability for the Company. The bulk of our assets are now reinvested and should produce an adequate return on investment. In addition, we do not anticipate any further losses in our Equipment Division.

For the longer term we are still faced with two problems, the on-going weaknesses and imbalances in the economies of the industrial nations and the relative inefficiencies in the Canadian economy versus that of the United States. Our defence to these factors is two-fold: first, in concentration of our assets in natural resource development and second, in increasing our emphasis on our United States activities. We think both of these measures reduce our long-term risks while still giving us the opportunity of earning a reasonable return on our shareholders' funds.

DB Nicholson

President

December 3, 1976

PanCana Industries Ltd.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS

	Year Ended September 30, 1976	Nine Months Ended September 30, 1975 (Note 10)
REVENUE	$ 5,796,915	$ 3,991,303
COSTS AND EXPENSES		
Cost of sales and direct operating costs	3,894,434	2,390,471
Mining exploration and development expenses written off	333,580	—
General and administration	799,085	715,360
Depreciation and depletion	583,102	423,668
Interest on long-term debt	560,645	305,852
Other interest	116,285	46,888
	6,287,131	3,882,239
EARNINGS (LOSS) BEFORE TAX, EARNINGS FROM DISCONTINUED OPERATIONS AND EXTRAORDINARY GAIN	(490,216)	109,064
INCOME TAXES		
Current	66,796	(31,247)
Deferred	(80,180)	93,914
	(13,384)	62,667
EARNINGS (LOSS) FROM CONTINUING OPERATIONS	(476,832)	46,397
EARNINGS FROM DISCONTINUED OPERATIONS, net of tax	—	250,930
EXTRAORDINARY GAIN ON SALE OF DIVISIONS, net of tax (Note 2)	1,068,609	120,781
NET EARNINGS	$ 591,777	$ 418,108
EARNINGS (LOSS) PER SHARE		
Continuing Operations	(12¢)	1¢
Discontinued Operations	—	6¢
	(12¢)	7¢
Extraordinary Gain	26¢	3¢
NET EARNINGS	14¢	10¢

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CONSOLIDATED

ASSETS

	NOTES	SEPTEMBER 30 1976	1975
CURRENT ASSETS			
Cash		$ 51,025	$ 80,997
Accounts receivable		1,204,203	2,657,145
Current maturities of notes receivable		100,000	—
Inventories	4	2,815,648	2,111,861
Prepaid expenses and deposits		103,787	196,150
		4,274,663	5,046,153
NOTES RECEIVABLE	2	758,069	—
FIXED ASSETS, at cost less accumulated depreciation and depletion	5	15,321,050	14,251,009
OTHER ASSETS		227,543	279,853
		$20,581,325	$19,577,015

APPROVED BY THE BOARD OF DIRECTORS:

Kendall Jennings Director

D B Nicholson Director

USTRIES LTD.

COMPANIES

LANCE SHEET

LIABILITIES

	NOTES	SEPTEMBER 30 1976	1975
CURRENT LIABILITIES			
Bank indebtedness	9	$ 468,406	$ 1,726,708
Accounts payable		910,796	1,696,061
Inventory financing		1,324,781	1,179,245
Income taxes		26,390	67,378
Current maturities of long-term debt		159,468	660,640
		2,889,841	5,330,032
LONG-TERM DEBT	6, 9	7,405,928	5,383,626
DEFERRED INCOME TAXES		2,573,504	1,743,082
		12,869,273	12,456,740

SHAREHOLDERS' EQUITY

	NOTES	1976	1975
CAPITAL STOCK			
Authorized 9,450,000 common shares of no par value			
Issued 4,116,413 shares	7	4,996,221	4,996,221
CONTRIBUTED SURPLUS		1,591,196	1,591,196
RETAINED EARNINGS		1,124,635	532,858
		7,712,052	7,120,275
		$20,581,325	$19,577,015

PanCana Industries Ltd.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	NOTES	Year Ended September 30, 1976	Nine Months Ended September 30, 1975 (Note 10)
SOURCE OF WORKING CAPITAL			
From operations after adjustments for non-cash items			
Continuing		$ 239,184	$ 1,133,524
Discontinued		—	939,487
		239,184	2,073,011
Net proceeds of sale of Divisions	2	4,133,194	—
Common shares issued on acquisition of subsidiary		—	1,591,196
Increase in long-term debt		2,062,929	863,588
		6,435,307	4,527,795
APPLICATION OF WORKING CAPITAL			
Acquisition of subsidiary	3	1,645,060	1,639,066
Increase in notes receivable		91,793	—
Fixed assets additions		3,025,651	4,606,936
Other		4,102	454
		4,766,606	6,246,456
WORKING CAPITAL INCREASE (DECREASE)		1,668,701	(1,718,661)
WORKING CAPITAL (DEFICIENCY) at beginning of period		(283,879)	1,434,782
WORKING CAPITAL (DEFICIENCY) at end of period		$ 1,384,822	$ (283,879)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year Ended September 30, 1976	Nine Months Ended September 30, 1975 (Note 10)
RETAINED EARNINGS at beginning of period	$ 532,858	$ 114,750
Net earnings	591,777	418,108
RETAINED EARNINGS at end of period	$ 1,124,635	$ 532,858

NOTES TO FINANCIAL STATEMENTS

1. ACCOUNTING PRINCIPLES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiaries. The subsidiaries are 100 per cent owned except W. E. Bolt Equipment Ltd. which is 75 per cent owned.

(b) Depreciation

Depreciation, other than on petroleum and natural gas equipment, is provided on a straight-line basis at rates which will amortize the cost of the assets over their estimated useful lives recognizing residual values where appropriate.

(c) Oil and Gas

The Company follows the full-cost method of accounting for oil and gas operations whereby all costs, including overhead expenses incurred in exploring for and developing oil, gas and related reserves are capitalized. These costs are amortized using the composite unit of production method based on estimated proven recoverable reserves. Depreciation of petroleum and natural gas equipment is similarly provided on the composite unit of production method.

The accumulated costs of Canadian and United States oil and gas operations are segregated into separate cost pools and amortization is calculated separately.

(d) Mining

All costs of exploration and development, including overhead expenses, are capitalized. These costs will be amortized by the unit of production method based on estimated proven recoverable reserves. The costs of unsuccessful mining ventures are charged to earnings.

(e) Income Taxes

The Company follows the tax allocation method of accounting under which the income tax provision is based on reported earnings. Accordingly, the Company provides for deferred income taxes to the extent that income taxes otherwise payable are deferred by claiming capital cost allowances and expensing exploration and development costs in excess of the depreciation and depletion provisions reflected in the financial statements.

(f) Current Maturities of Long-Term Debt

Where long-term debt is specifically secured by charges on revenue-producing assets and it is anticipated that future repayments of the debt will be made out of the future revenue from the assets, no part of the debt is classified as a current liability. With respect to other long-term debt, principal payments due within twelve months of the balance sheet date are classified as current liabilities.

(g) Inventories

Inventories are valued at lower of cost and net realizable value.

2. SALE OF DRILLING AND GEOPHYSICAL DIVISIONS

Effective October 1, 1975 the Company sold the equipment and certain other assets of its Drilling and Geophysical Divisions in two separate transactions summarized as follows:

	DRILLING	GEOPHYSICAL	TOTAL
Cash	$ 3,066,417	$ 1,468,914	$ 4,535,331
Notes receivable	450,000	433,000	883,000
	3,516,417	1,901,914	5,418,331
Liabilities discharged by Company	244,309	122,563	366,872
Total proceeds	$ 3,272,108	$ 1,779,351	$ 5,051,459

The note in respect of the Drilling Division sale is receivable by way of credits for participation in exploration programs or in cash by November, 1979.

The note in respect of the Geophysical Division sale is receivable in installments in the years 1976 to 1982, bears interest at prime rate plus 3 per cent, and is secured by a second fixed and floating charge debenture on the assets and undertaking of the purchasing company.

The gain on the sales, net of income taxes of $908,620 is reflected in the Consolidated Statement of Earnings as an extraordinary item.

The "Net proceeds of sale of Divisions" of $4,133,194, which primarily represents the sale of fixed assets, is shown in the Consolidated Statement of Changes in Financial Position and comprises:

Total proceeds of sale		$ 5,051,459
Less - Working capital of Divisions sold	$ 251,989	
Non-current portion of notes receivable	666,276	918,265
Net proceeds of sale		$ 4,133,194

3. ACQUISITION OF SUBSIDIARY

Effective July 1, 1976 the Company purchased for cash all of the issued common shares of Llano Oil & Gas Ltd., which has as its major asset producing oil and gas properties in the Irvine Area of Alberta. This acquisition has been accounted for by the purchase method, and Llano's earnings have been included in the consolidated earnings from the effective date of acquisition.

The net assets acquired and the values assigned thereto are as follows:

Petroleum and natural gas properties at net book value	$ 256,286
Increase from net book value to fair value	1,388,774
	1,645,060
Plus working capital acquired	35,475
Cash consideration	$ 1,680,535

The increase from net book value to fair value is accounted for as described in Note 1 (c).

4. INVENTORIES

All inventories are held for resale and comprise:

	1976	1975
Equipment	$ 1,848,713	$ 1,575,840
Parts	560,089	382,232
Land	393,500	—
Miscellaneous supplies	13,346	153,789
	$ 2,815,648	$ 2,111,861

5. FIXED ASSETS

Fixed assets comprise:

	1976			1975
	COST	DEPRECIATION AND DEPLETION	NET	NET
Construction equipment	$ 1,945,466	$ 596,389	$ 1,349,077	$ 1,626,446
Petroleum and natural gas properties	14,993,936	2,527,216	12,466,720	8,289,427
Mineral properties	432,873	—	432,873	241,203
Land and buildings	900,026	23,450	876,576	1,318,873
Miscellaneous	287,854	92,050	195,804	158,983
Drilling rigs and equipment	—	—	—	1,055,272
Geophysical exploration equipment	—	—	—	1,560,805
	$18,560,155	$ 3,239,105	$15,321,050	$14,251,009

6. LONG-TERM DEBT

Long-term debt comprises:

	1976	1975
Oil and gas production loans, interest at 1½% over prime Canadian bank rate, payable in varying installments to 1982.	$ 7,278,428	$ 4,538,145
Unsecured notes, interest at 9.75%, payable in 1977.	159,468	289,468
Other	127,500	1,216,653
	$ 7,565,396	$ 6,044,266
Less current maturities (Note 1f)	159,468	660,640
	$ 7,405,928	$ 5,383,626

Payments required in the next five years to meet installments on the above debt are:

Year ended September 30, 1977	$ 159,468
1978	1,455,685
1979	1,455,685
1980	1,455,685
1981	1,455,685

7. CAPITAL STOCK

There are options to employees outstanding in respect of 33,500 shares at $2.50 per share exercisable to December 31, 1976.

8. BUSINESS LOSSES

The tax effect of business losses has not been recognized in the financial statements. The losses of $213,000 for 1975 and $875,000 for 1976 are deductible from otherwise taxable income until 1980 and 1981 respectively.

9. ASSETS SUBJECT TO LIEN OR PLEDGE

The bank indebtedness is secured by a general assignment of book debts and a floating charge debenture. This debenture requires the approval of the bank prior to the payment of any dividend. The Company's oil and gas properties are charged to secure the oil and gas production loans.

10. COMPARATIVE FIGURES

In 1975 the Company changed its fiscal year end to September 30. Therefore, the 1975 comparative figures represent the results of operations for the nine months ended September 30, 1975. Certain of the 1975 comparative figures have been reclassified to conform with the basis of presentation adopted for 1976.

11. STATUTORY INFORMATION

In 1976 the Company and its subsidiaries paid $231,341 (1975 - $268,500) remuneration to directors, officers and senior employees.

During the year the Company advanced $75,721 to an officer for the purchase of a residence. The Company holds a first mortgage on the property. Of the balance outstanding at September 30, 1976, $6,000 is included in accounts receivable and $69,721 is included in other assets.

Included in current liabilities are amounts aggregating $201,337 due to a director and officer and companies controlled by him.

Thorne
Riddell
& Co.
CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Shareholders of
PanCana Industries Ltd.

We have examined the consolidated balance sheet of PanCana Industries Ltd. and its subsidiary companies as at September 30, 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at September 30, 1976 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Thorne Riddell & Co.
Chartered Accountants

Calgary, Alberta
November 29, 1976

HEAD OFFICE

736 Eighth Avenue S.W.,
Calgary, Alberta T2P 1H4

DIVISION OFFICES

CONSTRUCTION
Bain Bros. Construction
8525 Argyll Road
Edmonton, Alberta T6C 4B2
Gen. Manager — D. Bain

ELECTRONICS
Western Electronics Systems
5826 Burbank Road S.E.
Calgary, Alberta T2H 1Z3
Gen. Manager — W. Otto

EQUIPMENT
W. E. Bolt Equipment Ltd.
6304 Burbank Road S.E.
Calgary, Alberta T2H 2C2
President — W. E. Bolt

W. E. Bolt Equipment Ltd.
5419 - 82nd Avenue
Edmonton, Alberta T6B 2J6
Branch Manager — R. McLeroy

MINING
PanCana Industries, Inc.
1104 W. Main Street
P.O. Box 988
Elko, Nevada 89801
Gen. Manager — D. W. Houdashelt

OIL AND GAS
Admiralty Oil & Gas Ltd.
736 Eighth Avenue S.W.
Calgary, Alberta T2P 1H4

Llano Oil & Gas Ltd.
736 Eighth Avenue S.W.
Calgary, Alberta T2P 1H4

Northern Geophysical Ltd.
736 Eighth Avenue S.W.
Calgary, Alberta T2P 1H4

PanCana Industries, Inc.
231 - 300 North Linam
P.O. Box 2278
Hobbs, New Mexico 88240
Area Manager — B. Veteto

AUDITORS

Thorne Riddell & Co.
Calgary, Alberta

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company — Calgary, Montreal, Toronto, Winnipeg, Regina and Vancouver.

SHARES LISTED

Common shares listed on Toronto Stock Exchange.

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